Financing Your Business Growth and Expansion

Presentation By Bank of Industry Limited

Presented By:
Ms. Evelyn Oputu
Managing Director/Chief Executive
BANK OF INDUSTRY (BOI) Limited
Nigeria.

Outline

- Introduction
- Business Growth
    - Key Drivers
    - Types of Business Growth
- Financing Business Growth
    - Sources
    - Equity vs. Debt
    - Long Term Debt vs. Short Term Debt
    - Selecting the right option
- Inherent Risks of Accelerated Growth
- Managing Growth
- Role of BOI in Supporting Business Growth

Introduction

- Nigeria's economy has witnessed a remarkable recovery driven by President Olusegun Obasanjo's recovery programme.
- With the economic recovery and numerous emerging market opportunities, companies have begun to look towards growing their businesses.
- These businesses have been faced with obstacles such as lack of capital or a lack of an understanding of how to finance their growth and expansion.
- This presentation aims to assist entrepreneurs understand the various options available to them and the means by which BOI can support their business.

Business Growth: Key Drivers

- Business Growth is accelerated by the following factors:
    - Market pressure and competition
    - Increased earnings driven by management push
    - Emergence of new market opportunities
    - Creation of stakeholder value
    - Economies of scale
    - Development of new products

Business Growth: Types

- Business growth is achieved in two distinct forms, namely:

Organic Growth (Internal)

Business Growth

Inorganic Growth (External)

- Retained Earnings
- Innovations (New Product Development)
- Competitive Advantage

- **Takeovers**
- **Mergers**
- **Buy Outs**
- **Conglomerate Growth**

Business Growth: Organic (Internal) Growth

- Internal growth can come from:
  - Retained earnings – using profits to finance the expansion of operations
  - Innovation – new product development, new processes, new systems, etc. which can improve the efficiency of the company.
  - Competitive Advantage – the means by which a company is able to make itself stand out from its rivals – innovation could be one source of competitive advantage.
- Others might include:
  - After sales service
  - Quality
  - Price
  - Cost advantages
  - Brand image
  - Environmental consciousness

Business Growth: Inorganic (External) Growth

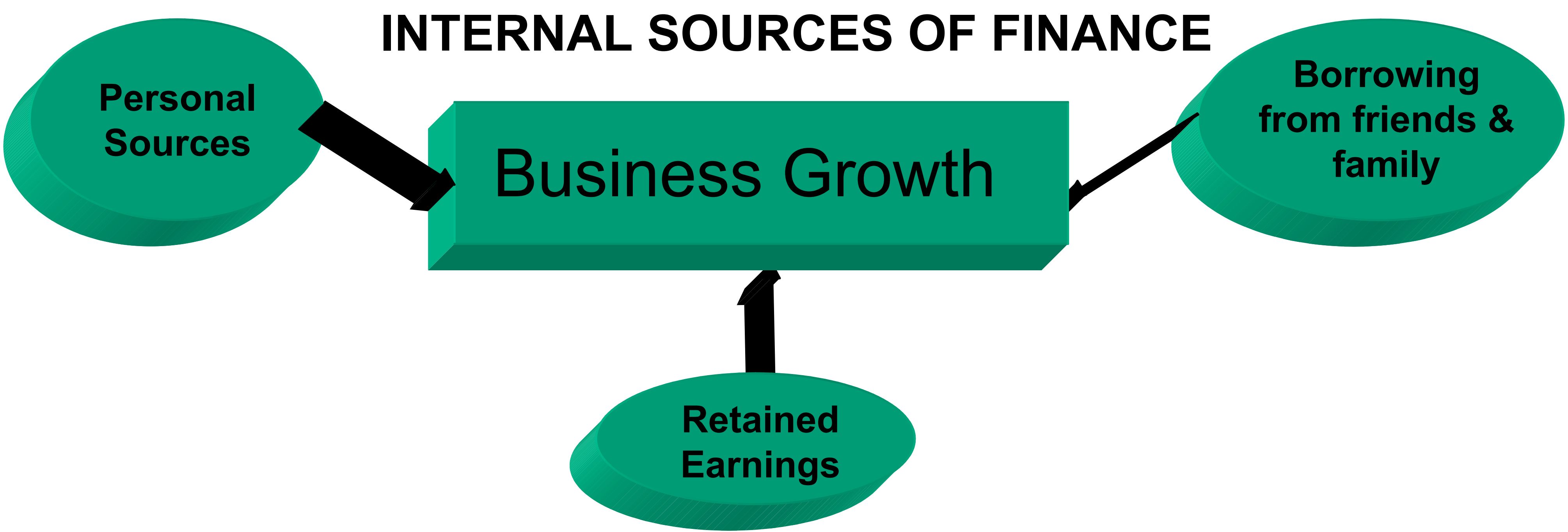
- External growth can come from:
  - Takeovers – One company acquires a controlling interest in another, the taken over company may lose its identity e.g. Total's acquisition of Elf Petroleum, Union Bank and Broad Bank
  - Mergers – The amalgamation of two or more companies.
    - Each company may retain some degree of identity e.g. Bank PHB, IBTC Chartered Bank, ExxonMobil etc.
  - Conglomerate Growth – the acquisition of companies in different production areas from its core market e.g. Dangote Industries' acquisition of Benue Cement Company and Oshogbo Steel Rolling Mills.

Financing Business Growth: Sources

- In order to grow, a company needs to be able to expand: - plant, buildings, human resources, etc.
- To do this it needs to acquire finance
- There are two basic sources of financing, namely:
  - ❖ Internal Sources
  - ❖ External Sources

Financing Business Growth: Internal Sources

- Private funds – personal savings, borrowings from family members and friends.
- Profits – retained profit ploughed back into the business – assumes of course the business is successful
- Internal sources tend to mean growth is slower



- Equity Financing
- Debt Financing

Public/Private Offerings

Angel Investors
- Friends & Relatives

Equity Financing
- Direct Equity
- Hybrid, e.g. Preference Shares
- Mezzanine financing

Venture Capital

Government Grants

Finance Requirement

Bank Loans
- Long Term – Over 5 yrs
- Medium Term – 3 -5 yrs
- Short Term – below 3 yrs

Trade Credit
- Transactionalised lending, mainly for the financing of working capital. e.g Stocks and Trade Debtors, etc
- Re-financing & Re-discounting of documents especially under export transactions, Elcees, etc.
- Pre and Post Shipment Financing

Debt Financing

Debenture/ Loan Stock

Lease
- Finance
- Operating

Financing Business Growth: Equity vs Debt

Benefits of Equity Financing	Benefits of Debt Financing
▪ Improves credibility of the business ▪ Profits can be reinvested in the business ▪ Operational losses are borne by all investors in the business ▪ Repayment of investment is not via traditional means i.e. as long as the business makes profit the investors' will be repaid.	▪ Enables the promoters of the business to retain control of the business ▪ Lender is entitled only to repayment of the agreed upon principal of the loan plus any interest earned and has no direct claim on future profits of the business. ▪ Except in cases of variable rate loans, principal and interest obligations are known amounts, which could be forecast and planned for ▪ Raising Debt is less complicated than raising equity as the business is not required to comply with Securities Laws and Regulations.
Disadvantages	**Disadvantages**
▪ Loss of control and autonomy over business ▪ Too much equity may indicate lack of faith in the business ▪ Time constraints in raising equity financing ▪ Cost of raising equity finance can be sometimes prohibitive.	▪ Over reliance on debt can result in problems if the revenue streams of the business cannot continue to service the debt ▪ Too much debt makes the business unattractive to investors who view the business as "High Risk". ▪ Interest on loans are a fixed cost which raise the businesses break-even point. High interest costs during difficult financial periods can increase risk of insolvency. ▪ Loans are a fixed cost which are not repayable in varying amounts over time based on the business cycle of the companies. ▪ Loan agreement often contain restrictions on the activities of the business ▪ The business usually has to pledge its assets as collateral to secure financing.

Financing Business Growth: Long vs Short

Benefits of Long Term Debt Financing	Benefits of Short Term Debt Financing
1. For assets with longer life expectancy, the payments are spread over a longer period. 2. It allows more projects to be constructed simultaneously during a period of rapidly expanding growth. 3. During periods of increasing inflation, it may reduce the real cost of the project. 4. More stable than short term debt 5. Linked to growth of company's operating capacity 6. Less need for maintenance and monitoring 7. Sources such as leases offer flexibility compared to buying the asset.	1. Source of 'quick' liquidity 2. Help tide over short term shocks 3. Relatively easy to negotiate 4. Free up funds for investment opportunities in the short term. 5. Less need for collaterals and pledges. 6. Relatively low cost of servicing
Disadvantages	**Disadvantages**
1. Costly interest charges 2. Need to prepare information for financiers 3. Companies with no track records, cash and asset base will find it more difficult to obtain financing. 4. Restrictive clauses and covenants.	1. Time and resources for monitoring and maintaining short-term credit. 2. Not useful for long term capital needs.

Financing Business Growth:

Selecting the right option

- Choosing a possible financing source may be as simple as making do with what is available
- Ideally, you should have several options available to you and have a good idea of what you want.
- Your options will be dictated by several considerations, broadly outlined as:
    - ❖ Who wants what.

      Not all investors are looking for the same thing or have the same objectives as you. Some are interested in preserving capital, keeping the business alive by adding value, and generating profit while others are willing to risk everything for a shot at great wealth. Understanding what the varying financing sources want can be the difference between getting financing and having to do without.
    - ❖ Estimating your financing requirement

      This will determine the kind of financiers to approach i.e. if your requirement is for long term equity investments then a venture capitalist is your best option.
- If it is long term debt to fund your expansion your best and only option at this time could be BOI.

Inherent Risks of Accelerated Business Growth

- Anyone who has been in a rapidly growing business will tell you that it can be exciting – but at the same time daunting. Business growth can threaten

  - Service levels
  - Staff morale
  - Margins
  - Quality; and
  - Technology

- It is therefore paramount that all businesses effectively manage the growth process to ensure that they do not suffer significant losses.

Managing Growth

- Businesses are human organisations – human beings can be difficult to manage!
- Larger organisations may suffer from diseconomies of scale
- Larger organisations may also necessitate changing roles for the managers/leader/owners
- There may be a divorce between ownership (the shareholders) and control (the Board)

Role of BOI in Supporting Business Growth

- Established in 2001, the Bank of Industry Limited is largely a State owned DFI charged with the responsibility of promoting the emergence of a virile industrial sector.
- BOI was conceived as the current administration’s instrument to catalyse the transformation of the real sector.
- Its mandate is to provide financing and business support services to entrepreneurs especially SMEs with strong potentials for employment generation and exports.
- BOI’s emphasis is on key non-oil sectors that would support diversification of the economy.
- BOI is to act as a key driver in the development of the SME sector in Nigeria on a sustainable basis.

Role of BOI in Supporting Business Growth

- Primarily, BOI aims to support business through the provision of the following support programmes.

  - Providing financing for the support of entrepreneurs through the provision of direct loans, guarantee support etc

  - Providing financial advisory services to entrepreneurs

  - Acting as intermediates between entrepreneurs and both local and international financial institutions assisting businesses access financing from these institutions.

Role of BOI in Supporting Business Growth

- Examples of BOI activities in financing growth and expansion

3

Easy Steps To Access BOI Facilities

Role of BOI in Supporting Business Growth

BANK OF INDUSTRY LIMITED
Project Appraisal Questionnaire
(To Be Completed By The Chief Promoter)

NAME OF COMPANY:……………………………………

1. INTRODUCTION:

The business plan relates to a project to produce……………………………………
N……………………………………at a total cost estimate of ……………… Out of this amount, BOI financial assistance is being sought for N……………………in long, medium and short terms credit.

2. THE COMPANY:

2.1 Name of Company:……………………………………

2.2 Incorporation No.(RC No.)………………Date of Incorporation:………………

2.3 Corporate Office Address of Applicant:……………………………………

2.4 Factory Address: ……………………………………

5 Ownership Structure

Name	Share Capital Contribution	% Shareholding
i)		
ii)		
iii)		
iv)		
v)		
vi)		

Available on www.boinigeria.com

BOI NETWORK

BANK OF INDUSTRY

Role of BOI in Supporting Business Growth

- A large number of loan applications for expansion, diversification and rehabilitation were received and considered in the first quarter of 2006.

- Facilities up to N4.4 billion were approved.